

Reasons to sell

Contributed by Travis Morien

Although trading properties is something best left to specialists who ferret out underpriced properties, fix them up and sell them soon after, there are definitely some valid reasons why people should sell their real estate otherwise, even if they intend to remain real estate investors for the long term, and will need to buy properties back later on.

When the market is showing all the signs of a speculative boom, as occurred in the 1980s, or interest rates start to rise when prices are already high, consider selling. There is a good chance you will be presented some very good opportunities in a year or two to buy some very good real estate for very cheap prices compared to today.

If you have multiple properties and don't want to sell out entirely, sell the most expensive ones, as generally speaking in real estate the most volatile ones are the most expensive at the end of the boom. Your properties in the lower end of the market probably won't have much calamitous happen to them, but the ones in the more expensive suburbs may be about to take a beating.

There may also be changes in income return, actual or imminent. If a new development of low cost housing is going up in the vicinity, a sudden increase in the supply of accommodation in the area is very likely to upset the whole supply/demand apple cart, and rents will fall. On the other hand if the new area is very expensive, some kind of glamour estate, it may be worth hanging in there for the ride, unless the market as a whole is very obviously overpriced.

If the property is commercial in nature, consider the effect of nearby new shopping centres going up. If your property is retail real estate, a big development a few kilometers away may well kill the local strip malls off as shop keepers move to where the action is. At the very least you may suffer a reduction in demand and be able to charge less rent.

Zoning changes, undesirable developments. If the scenic view from the front window may be disturbed by the new highway they want to put in in a few years, consider selling immediately. If a new home for the criminal insane, a rubbish tip, heavy industry or a chemical supply dump are coming along, instead of pointlessly bleating at the local town council just sell.

If a highway bypass, dual carriageway, reduction in parking or other access problems may hurt sales for your retail, industrial or commercial property, sell. There are plenty of small retailers out there right now suffering because they didn't take an interest when main roads proposed some change to traffic years ago, so keep an eye out for such matters.

If your own financial profile changes you may have to sell. When the new tax system was introduced, people previously on high tax brackets who had been able to successfully achieve positive after-tax cashflow, now find themselves making real losses as the tax benefits are no longer worthwhile. If you lose your high paying job or retire, tax concessions may no longer mean much to you. In this case shares will start to look much more worthwhile than real estate. If you do retire you may also wish to enter into a lower risk investment than real estate. In particular if you are involved in some of the more risky forms of real estate, or still have excessive gearing, the risk profile for someone without high income may be far too high.

If your investment is negatively geared, you will be in big trouble if the market turns bad and you don't have the income to meet mortgage payments. Unless you have buckets of cash sitting around the mere hint of interest rate rises and a topping market should be a signal to reduce gearing or get out entirely. Lots of ordinary people have lost their own private residence because they failed to apply the requisite caution to negatively geared properties.

Failure to sell at the top of a market incurs significant costs, not just the possible cost of the reduction in capital values, which people rationalise away anyway when they think of the inevitable (?) recovery in values, but also a major opportunity cost. By not selling when you have the chance to take large profits, you forgo the chance to place deposits on several properties when the slump begins, and lose the chance to make a genuine killing from those.

Although it runs contrary to some rather fundamental investment philosophies about running your profits, remember that a profit is not a profit until it is in the bank. Investment advisers talk freely of profits made in the form of unrealised capital gains, but at the same time pooh-pooh "paper losses" saying that a loss is not a loss until you sell. To be fair on that one you must adopt a policy to either accept paper profits and losses as real, or not to accept either until you sell. Paper profits mean nothing until you get cash, so don't let anyone try some trick to convince you that a property worth less than you bought it for is not a loss maker, unless they also told you that your property had never made a profit in the first place when the value was much higher.